MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016 SESSION

BAC4674 – INTEGRATED CASE STUDY

(All Section / Groups)

03 JUNE 2016
9:00 AM – 12:00 NOON
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 7 pages excluding cover page with 6 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

AJ FOOD INDUSTRIES (M) SDN. BHD.

"Sometimes, my expectation is that when I engage you, it's not just preparing our accounts, that's it. But I always want it to be something that is value-added. You give us advice that you have discovered in our accounts that have weaknesses [SO THAT WE CAN IMPROVE]."

Pn. Juriah bt Haji Jasmi, director of AJ Food Industries on the services expected from assurance services

The Company

AJ Food Industries (M) Sdn. Bhd. (thereafter referred as AJ Food) is one of the pioneer Bumiputra companies producing local salad mayonnaise. Besides producing mayonnaise as their first product under their own brand name Mayo Bites, the company's core business activities also include manufacturing sauces under their own brand name 'JASMA'. They include the local favourite chilli sauce and the more contemporary Malaysian flavours pizza sauce, pasta sauce and barbeque sauce. Presently, JASMA is one of the leading HALAL mayonnaise and sauce products in Malaysia. They cater for both household users as well as bulk buyers. AJ Food has also penetrated the international market, with its products currently sold in Dubai, Ireland and Singapore.

AJ Food Industries now owns two factories which are located at Klang and Gombak. The Klang factory is the present factory producing all the company's products whereas the new factory in Gombak will only be producing mayonnaise. These two factories have got GMP (Good Manufacturing Practices) certification which the company obtained in January 2009 from the Ministry of Health. AJ Food is among the first Bumiputra companies in Selangor that obtained GMP.

All of JASMA products are manufactured using quality ingredients and the latest technology, making them convenient, versatile and healthy to consume. They come in diverse packaging, in easy-to-use squeezer bottles, and economical refill packs of various sizes. All of their products have been endorsed with the HALAL certification except for the new products, pasta sauce and barbeque sauce which are in the process of being registered with Jabatan Kemajuan Islam (JAKIM). Their products' tagline is 'Simply Delicious', meaning their range of delicious products is suitable for both Western and Asian food lovers anytime and anywhere.

The company's financial position has been improving from operating at a loss in the early years to gaining profit in 2008, all attributable to their growth in sales. The company managed to reduce their losses from RM100,000 to RM30,000 and eventually gain some profit in 2008. Initial sales of RM100,000 increased to RM1.2 million in 2008. The company targeted sales of RM1.5 million in 2009 due to their improvement in marketing. According to the company director, even though their sales increased, their cost of production had also increased due to rising prices in the raw materials and packaging materials.

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The early years: Being a pioneer HALAL mayonnaise producer, coming up with a successful product of R&D and market survey, competing with existing brands.

AJ Food Industries (M) Sdn. Bhd. was set up on September 5, 1998 by Encik Ainual Azhar bin Haji Jasmi and his elder sister, Puan Juriah bt Haji Jasmi, who decided to venture into the mayonnaise business and came out with the brand name 'JASMA' which is a combination of their parents' names, Jasmi and Asma. The company name, 'AJ', represents the two owners' names, Ainual and Juriah. Encik Ainual who graduated from Universiti Putra Malaysia (UPM) with a Diploma in Agriculture and a Bachelor in Food Technology has ten years of experience as a food technologist working in several food specialties companies. On the other hand, Puan Juriah has twenty years of experience in the insurance industry with a Certificate in Insurance from Institut Teknologi MARA (ITM). She is also a chartered insurer with qualifications from UK. AJ Food was formed because of the evolution of the local taste due to the influence of an international variety of flavours. Thus, the company produces new flavours of their own to cater to the new demand market.

En Ainual first had the idea of being a pioneer producer in the local mayonnaise market when he saw potential in the business as there was still no such producer in the market during that time. Moreover, he was already interested in being an entrepreneur since his school days. He said:

"Previously, I worked as a food technologist with a few food specialties companies. During my service with my last employer for whom I worked for six years, I suggested that they don't concentrate so much on their chilli sauce. Instead, I asked them to venture into another product like mayonnaise because during that time, Ramli was also trying to make mayonnaise. I asked them to segregate the market. However, the management was not interested to venture into this business, so I looked for someone else. In the process, my sister Pn. Juriah became interested in starting the mayonnaise business."

As En Ainual was looking for someone to start his mayonnaise business, The company faced the challenge of difficulties in getting funds to finance their business. At the time when they first started their business, grants provided by the government were not clearly communicated to all SMEs. Hence, as a new SME in the market, they were not aware of the grants that were available to help them. Realising that the grants allocated for SMEs were limited, their competitors who knew about it would not tell them. Furthermore, it was also very difficult for them to obtain bank loans as banks were very strict in providing loans to SMEs. The banks required a lot of supporting documentations and collateral to back up the loan. Therefore, it was indeed a very big challenge for SMEs like AJ Food to obtain funds to start and finance their operations. Pn. Juriah stepped in as an investor. She decided to join her brother because she needed flexible time to look after her children and at the same time earn some income as her husband had just passed away. Besides she also wanted to answer the call of the government for more Bumiputra entrepreneurs.

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The company was set up with an authorized capital of RM500,000 and a paid-up capital of RM250,000 by both En. Ainual and Pn Juriah. In terms of share holdings, Pn. Juriah holds 60% and En. Ainual holds 40%. The company is run by En. Ainual who is the Managing Director and Pn. Juriah, the Director.

Although the company was registered on September 5, 1998, they only started manufacturing their products in January 2000. JASMA first entered the market in 2000, operating as a family-based business with home-made recipes and later developed to manufacture a range of quality sauces for mass consumers. The company's pioneer product, salad mayonnaise, was produced after more than a year of intensive R&D and market survey as revealed by En. Ainual:

"Making mayonnaise in the early years requires advanced knowledge or technology. I approached PORIM now known as MPOB and MRB. However, they did not have the experience in making mayonnaise. So we had a discussion with our staff and together with our other entrepreneurs conducted studies on the ways to venture into the market. For example, getting the idea from the results of our survey, we talked to burger's stall owners or kids that sell burgers at night and asked them how they got their mayonnaise supply. It's important to do a market survey before we venture into any business. That's the approach we used in the initial stage which was mostly our own and one that came from our own reading. Entrepreneurs must not forget to read."

Two years after the production of their mayonnaise, the company started to produce chilli sauce, followed by pizza sauce. In the last two years, they changed to pasta sauce instead of pizza sauce as a result of rebranding. Along the way, they still continue with their R & D and expanded their range of products to include barbeque sauce.

When they first started, they only had marketing and production as one department as well as two to three employees, including Mr. Ainual and Pn. Juriah. Pn. Juriah initially worked part time, coming to the factory once a week and helping her brother during exhibitions. Later, when all her kids had graduated, she became a full-time employee. All the marketing was done and handled by Pn. Juriah and En Ainual, right from the beginning until today.

When AJ Food first entered the market, besides imported products, their only local competitor was Lady's Choice. Penetrating the local market was tough for AJ Food because many thought that their products were from Lady's Choice. People had the impression that they purchased the mayonnaise from Lady's Choice, repacked it and then sold it back to the market. To make matters worse, many Malay potential buyers were very skeptical as to whether AJ Food was capable of producing mayonnaise. In 2001 when the market was good, Lady's Choice wanted to compete with AJ Food to get a bigger share of the market.

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However, with En Ainual's 10 years of experience and knowledge as a food technologist as well as their strong marketing strategy, AJ Food managed to create a niche in the mayonnaise market for their brand JASMA and sustain it in the market. After that, their business started to pick up. At this present moment, AJ Food is categorized as a fast-growth stage company by its director where the business is growing for survival; revenue starts to grow as products and services receive market acceptance.

Getting sales: Overcoming obstacles and venturing into hypermarkets

Just when AJ Food was experiencing growth in their sales, they were hit with another letdown. From 2003 to 2004, they encountered a problem with their mayonnaise packaging. That incident affected the company so badly that it nearly closed down. However, with their commitment and perseverance, they managed to pull through and return to the market in 2006. When they returned, they managed to achieve another success which was venturing into the hypermarket sector. Thus, it took AJ Food eight years before their products could finally be put on the shelves of hypermarkets.

In order to penetrate the hypermarkets, AJ Food created new and unique products which were not in the market yet. When the market was filled with mayonnaise products, they changed the mayonnaise bottle so that the sauce can be squeezed out from the bottle and they also started to produce pasta and BBQ sauce to remain competitive in the market. In addition, Pn. Juriah personally went to the exhibitions to meet the customers to get feedback from them. Besides participating in the exhibition, they managed to meet people from the media who requested for an interview with them. The company agreed to take the opportunity and appeared in the media.

With their quality and consistent supply, AJ Food received the Best Supplier Award from Mydin in 2007. In 2009, they also received several awards, among which are Good Manufacturing Practices (GMP) Award from the Ministry of Health, Usahawan Swasta Jaya from the Ministry of Agriculture, Second Highest Sales in Selangor Award by the Ministry of Agriculture (MOA) and JICA Award in Human Resource as appreciation from SMIDEC.

AJ Food may be a small SME, but it is not too small to recognize the importance of Corporate Social Responsibility. Since 2008 they have accepted students from universities and community colleges to undergo their practical training in their factory. AJ Food has provided a platform for students to practice what they have learnt in the classroom. Besides that, En Ainual himself has also been involved as an advisor in setting the modules for the Community College. He helped to design the course syllabus, ensuring that it is appropriate for the students. He also shared his experience as an entrepreneur in the food industry. At the same time, he could also promote the AJ Food brand. Moreover, sometimes when the company budget was tight and the company faced the problem of insufficient personnel, accepting these students proved to be an advantage to them. The students helped the new factory with the factory layout, machines, etc.

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AJ Food has even received enquiries from foreign engineering students from France requesting practical training at their company. The company had a very good experience with the first batch of students from the Kolej Komuniti Sabak Bernam whom they received in 2008. However, the recruitment of the second batch of students had not been successful because there were not enough students who enrolled for the Diploma in Food Technology course.

To the new factory: Expansion and Growth

Only in the last year AJ Food managed to venture into the export market. Presently, their products are exported to Singapore, Ireland and Dubai. The company has had a hard time going into the Singapore market because they had to fulfill a lot of parameters, stringent requirements and high standards. As for the local market, currently JASMA's distribution network is mainly through their stockists and marketing agents comprising 113 mini market outlets, 54 stockists including frozen food stockists like RAMLY Mart, 2 bakeries, 28 Giant Hypermarket outlets, 21 Tesco outlets, 7 Mydin Holdings outlets and 14 Carrefour outlets. Since last year, their sales trend has covered more on the supermarket. Therefore, out of their RM1.2 million sales last year, only 42% came from the hypermarket sector compared to a higher percentage of 52% in 2008. The remaining sales volume was spread over their other market segments as well as the exhibitions in which they had participated.

Later in August this year, the company will open another new factory in Mukim Batu, Gombak, Selangor because they have been selected to participate in the HALAL Business Incubators by MARA. The new venue will be a bonded warehouse where they have many food entrepreneurs from eighteen companies which were chosen by MARA. AJ Food was chosen because MARA has seen that their product is unique and has potential. However, the company is only allowed to produce mayonnaise in the new factory. MARA has plans to turn the venue in Batu Caves into a HALAL international hub. Hence, whenever there are visitors coming from overseas, MARA will bring them to the venue to do business matching with the companies there.

With all the expansion and growth, AJ Food is advancing towards achieving its vision of being a successful Bumiputra enterprise in the production of quality 'HALAL' mayonnaise product and also practicing GMP, in addition to making 'JASMA' a household name and a well-known quality sauce producer in the fast food industry, locally and internationally. Up till now, the company is operating its business based on its five company objectives which are as follows:

- To increase the economy of Bumiputra people
- To produce 'HALAL' and high quality products for consumers
- To increase the number of quality Bumiputra entrepreneurs
- To prove that local Bumiputra companies are also able to develop and produce homogeneous and quality food products
- To build JASMA as a leading brand in Malaysia

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However, lately there have been many brands that have penetrated the mayonnaise market such as Deli Mayo, Long Soon and Swiss Bear which made the competition stiffer.

The organizational structure

AJ Food's organizational structure consists of two persons on the board of directors, namely En. Ainual and Pn. Juriah as well as ten staff under them. Out of the ten staff, five are in production, three are in marketing and, on and off, two in administration. One of their production staff is from Bangladesh. The production staff in the company is also multitasking. If any of the administrative staff suddenly quits, the production staff have to temporarily do the administrative job as well. The company is taking this approach because they want to cut cost.

Finance and Accounting Functions

AJ Food does not have an accounts department nor an internal accountant. Instead, it outsourced its accounts on a yearly basis to the company which is in charge of its secretarial service firm. AJ Food has administrative staff to keep records and handle filing based on the instructions given by the firm. That company advises AJ Food on how it should document its accounts, what are the things and special files it needs. Other than that, AJ Food does its own budgeting, forecasting and product costing based on previous data. There are team building sessions to get input and to discuss with the staff on the company's performance, target and what they should do.

In 2007, when AJ Food felt that the yearly accounting service provided by the firm was too risky, not practical and hard for them to monitor their documentation, they outsourced their accounts to another auditor. When they changed to this new auditor, they changed their accounting software as well, from 3A Accounting to UBS because they found that UBS is more effective.

AJ Food also has two appointed bankers which are RHB Bank Berhad and Malayan Banking Berhad. Today they are still using the services of the same company for their secretarial needs but they have appointed a new SMP as auditor.

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QUESTIONS

1. Define Small and Medium Enterprises (SMEs) and classification of SMEs

(15 marks)

2. "Small and Medium Enterprises (SMEs) play a significant role in the development of the Malaysian economy. However, their contribution to the national economy is still relatively small. Due to this, the government has made the development of SMEs a high priority area with a string of development agendas. Despite this, SMEs are still facing heaps of challenges and obstacles that deter them from further expanding their businesses."

SME Annual Report (2006), National SME Development Council. Kuala Lumpur

Discuss the above statement and identify the challenges faced by SMEs and factors to overcome those challenges.

(20 marks)

3. Using the factors of effective management strategy, product rebranding and promotion, explain how these factors contributed to the success of AJ Food.

(15 marks)

4. Identify three challenges faced by AJ Food since venturing into the business.

(15 marks)

5. What would be the role of accounting and assurance service provider and the reasons the company changed and recruited SMP as a new auditor?

(20 marks)

6. What would you suggest with regards to AJ Food's future plan?

(15 marks)

[Total 100 marks]

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